

Message Text

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FM AMCONSUL RIO DE JANEIRO

TO DEPARTMENT OF TREASURY WASHDC IMMEDIATE

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DEPARTMENT OF INTERIOR WASHDC

DEPARTMENT OF COMMERCE WASHDC

AMEMBASSY BRASILIA

LIMITED OFFICIAL USE SECTION 1 OF 2 RIO DE JANEIRO 1625

TREASURY FOR JERRY NEWMAN (OASIA)

EO 11652: NA

TAGS: EMIN BR

SUBJ: VISIT OF TREASURY SECRETARY SIMON - BACKGROUND PAPER ON
BRAZIL'S MINERALS RESOURCES

REF: (A) NEWMAN-DEFALCO TELCON; (B) CERP 0429

1. INTRODUCTION: LONG CONSIDERED THE "SLEEPING" SOUTH AMERICAN
MINERALS GIANT, BRAZIL, ALONG WITH THE REST OF THE WORLD, IS
RAPIDLY AWAKENING TO ITS VAST RESOURCES. THESE RESOURCES, PLUS
THE COUNTRY'S FAVORABLE FOREIGN INVESTMENT CLIMATE AND MINING
CODE, ITS POLITICAL AND ECONOMIC STABILITY, AND ITS LARGE
DOMESTIC MARKET MAKE BRAZIL ONE OF THE MOST ATTRACTIVE AREAS
TODAY FOR NEW MINERALS, METALS AND FERTILIZER INVESTMENTS. SO
ATTRACTIVE, IN FACT, THAT SOME 50 FOREIGN-OWNED MINING COMPANIES,
HALF OF WHICH ARE FROM THE US, AND AN ADDITIONAL 50 PRINCIPAL
LOCAL COMPANIES ARE ENGAGED IN A "MINERALS RUSH" IN THIS CONTIN-
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ENTAL-SIZE COUNTRY. ALTHOUGH ONE COMPANY, THE GOB-OWNED CVRD

(COMPANHIA VALE DO RIO DOCE), IS THE COUNTRY'S DOMINANT IRON ORE PRODUCER AND IS NOW INVESTING HUGE SUMS IN OTHER MINERALS PROJECTS AS WELL, IT IS DOING SO MAINLY IN PARTNERSHIP WITH FOREIGN-OWNED COMPANIES. THE GOB MAINTAINS MONOPOLIES IN TWO GROUPS OF MINERALS - PETROLEUM (PETROBRAS) AND RADIOACTIVE MATERIALS (NUCLEBRAS). THOSE MONOPOLIES, HOWEVER, ARE IN PRACTICE BEING SOMEWHAT RELAXED (SEE BELOW).

2. \$25 BILLION OF NEW PROJECTS: ALL TOLD, NEW EXPLORATION, MINING, METALS, PETROLEUM AND FERTILIZER PROJECTS REQUIRING UPWARDS OF \$25 BILLION IN CAPITAL INVESTMENTS ARE SCHEDULED TO GET UNDERWAY DURING THE NEXT FIVE YEARS. BRAZIL MAY BE SHOOTING TOO HIGH FOR THAT TIME FRAME, GIVEN THE AVAILABLE FINANCIAL RESOURCES, BUT THERE IS LITTLE DOUBT THAT THE GOB AND EVERY COMPANY OPERATING HERE MEAN BUSINESS - BIG BUSINESS.

3. IRON ORE: TRADITIONALLY, BRAZIL'S IRON ORE EXPORTS HAVE DWARFED THE REST OF ITS MINERALS SHIPMENTS ABROAD AND THEY PROBABLY WILL CONTINUE TO DO SO FOR MANY YEARS. IT IS NOT SO MUCH THAT OTHER MINERALS ARE NOT BEING DISCOVERED AND DEVELOPED. THEY ARE, BUT IN THE MEANTIME, IRON ORE PRODUCTION CONTINUES TO SOAR. IN 1970 BRAZIL EXPORTED 28 MILLION TONS OF IRON ORE; IN 1975 SHIPMENTS REACHED 72 MILLION TONS, SECOND ONLY TO AUSTRALIA'S AND TRIPLE THOSE OF VENEZUELA. BRAZIL'S SHIPMENTS LAST YEAR WERE VALUED AT \$900 MILLION FOB, MAKING IRON ORE THE COUNTRY'S THIRD LEADING FOREIGN EXCHANGE EARNER. BY 1980, IRON ORE EXPORTS ARE EXPECTED TO REACH 130 MILLION TON PY AND BY 1985 THEY SHOULD SURPASS 160 MILLION TON PY. CVRD AND U.S. STEEL HAVE FORMED A JOINT VENTURE COMPANY, AMAZONIA MINERACAO (AMZA), TO EXPLOIT AN ESTIMATED 17 BILLION TONS OF HIGH-GRADE IRON ORE IN THE INTERIOR AMAZON REGION OF CARAJAS. CVRD CURRENTLY HAS 51 PERCENT OF THE EQUITY AND US STEEL 49 PERCENT, ALTHOUGH LATTER'S SHAREHOLDING WOULD DECREASE TO 20 PERCENT IF, AS EXPECTED, JAPANESE, BRITISH AND SPANISH GROUPS EVENTUALLY JOIN AMZA. THE CAPITAL INVESTMENT REQUIRED TO DEVELOP THE PROJECT, WHICH WILL INCLUDE A MINE, A 1,000-KM RAILWAY TO THE SEA, AND A MARINE TERMINAL, IS ESTIMATED AT \$2.7 BILLION. WHEN IT REACHES FULL PRODUCTION, CARAJAS IS TO PRODUCE 50 MILLION TON PY. A VARIETY OF THORNY PROBLEMS HAVE STALLED THE PROJECT AND DELAYED THE START OF CONSTRUCTION, WHICH HAD BEEN SCHEDULED FOR THIS YEAR. THE LIMITED OFFICIAL USE

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GOB IS STILL DETERMINED TO TRY TO PUT THE PROJECT ON STREAM BY 1981. THE HEART OF THE PROBLEMS BETWEEN CVRD AND US STEEL INVOLVE MANAGEMENT CONTROL AND THE RESPONSIBILITIES OF THE PARTNERS, PARTICULARLY IN LIGHT OF US STEEL'S EXPECTED REDUCED EQUITY PARTICIPATION.

4. STEEL: WITH PERHAPS THE WORLD'S LARGEST IRON ORE RESOURCES AT ITS COMMAND AS A RAW MATERIAL, BRAZIL INTENDS TO BECOME A

LEADING STEEL PRODUCER AS WELL. ALREADY BY FAR THE LARGEST PRODUCER IN LATIN AMERICA, WITH 8.3 MILLION INGOT TONS LAST YEAR, BRAZIL EXPECTS TO NEARLY TRIPLE PRODUCTION BY 1980 AND BECOME A NET EXPORTER (STEEL IMPORTS RAN \$1 BILLION LAST YEAR). GIVEN THE MASSIVE FINANCIAL RESOURCES REQUIRED (\$8 BILLION FOR THE 1976-1980 PERIOD ALONE), THE STEEL EXPANSION PROGRAM MAY NOT REACH ITS TARGET ON TIME BUT THERE IS LITTLE DOUBT THAT IT WILL BE EVENTUALLY REACHED.

6. OTHER MINERALS PRODUCTION: BESIDES IRON ORE, SEVERAL OTHER MINERALS ALREADY HAVE BEEN WELL-DEVELOPED. IN 1975 ICOMI, WHICH IS 49-PERCENT OWNED BY BETHLEHEM STEEL, EXPORTED 1.6 MILLION TONS OF MANGANESE VALUED AT \$81 MILLION. BRAZIL ALSO IS VITAL IN THE SUPPLY OF SOME LESSER KNOWN BUT NONETHELESS IMPORTANT MINERALS, NOTABLY QUARTZ CRYSTAL (98 PERCENT OF THE WORLD'S EXPORTS); COLUMBIUM (60 PERCENT); BERYL (50 PERCENT); TANTALUM (30 PERCENT); AND GEMSTONES.

7. OTHER MINERALS IN FUTURE: IN THE NEXT 10 YEARS BRAZIL ALSO IS LIKELY TO BECOME A MAJOR PRODUCER OF BAUXITE, ALUMINUM, NICKEL AND PHOSPHATE. CONSTRUCTION HAS JUST BEGUN ON A \$280-MILLION

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PROJECT IN THE AMAZON REGION TO PRODUCE AND EXPORT 3.3 MILLION TYP OF BAUXITE. THE JOINT VENTURE IS LED BY CVRD AND INCLUDES EQUITY PARTICIPATION BY REYNOLDS METALS. CVRD AND THE JAPANESE ALSO HAVE PLANS FOR A \$2-BILLION ALUMINA-ALUMINUM PROJECT IN THE AMAZON TO PRODUCE 320,000 TYP OF ALUMINUM. LATER THIS YEAR CVRD, PROBABLY IN PARTNERSHIP WITH REYNOLDS, IS TO BEGIN CONSTRUCTION ON A \$240-MILLION, 80,000-TYP ALUMINUM SMELTER NEAR RIO. SEVERAL LARGE PHOSPHATE AND NICKEL PROJECTS ARE GETTING UNDERWAY AS WELL. THE OUTLOOK IS ALSO BRIGHT FOR NON-METALLURGICAL COAL, OIL SHALE, URANIUM, THORIUM, TIN, GOLD, TUNGSTEN, CHROMITE, AND SUCH INDUSTRIAL MINERALS AS POTASH, KAOLIN, AND ASBESTOS. TO DATE, HOWEVER, EXPLORATION FOR ADDITIONAL RESERVES OF PETROLEUM, COPPER, LEAD, ZINC AND METALLURGICAL-GRADE COAL HAS MET WITH VERY LIMITED SUCCESS.

8. TRADE POLICIES: NEARLY ALL OF BRAZIL'S MINERALS EXPORTS ARE DIRECTED TO MARKETS IN WESTERN EUROPE, JAPAN AND THE US. MOST SALES CONTRACTS ARE NEGOTIATED ON A STRAIGHT COMMERCIAL BASIS OR AS PART OF AN INVESTMENT AGREEMENT, ALTHOUGH GOVERNMENT-LIMITED OFFICIAL USE

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TO-GOVERNMENT BARTER ARRANGEMENTS FOR BRAZILIAN IRON ORE ARE COMING INTO PLAY WITH SOME EASTERN EUROPEAN NATIONS. AS INTERNATIONAL RAW MATERIALS FORUMS, THE GOB HAS CONSISTENTLY TAKEN A MODERATE POSITION CALLING FOR A POLICY OF VOLUNTARY COOPERATION BETWEEN EXPORTERS AND IMPORTERS. THUS FAR, THE GOB HAS DECLINED MEMBERSHIP IN THE NEW ASSOCIATION OF IRON ORE EXPORTERS, FEARING THE IMPOSITION OF EXPORT QUOTAS AT THE VERY MOMENT THE COUNTRY WANTS TO CONTINUE BOOSTING ITS IRON ORE OUTPUT.

9. PETROLEUM: IN THE ENERGY SECTOR, BRAZIL PROVIDES ONLY 20 PERCENT OF ITS PETROLEUM REQUIREMENTS. IN 1975 PETROBRAS PRODUCED 63 MILLION BBL., ROUGHLY THE SAME OUTPUT AS IN EACH OF THE SEVEN PREVIOUS YEARS. THE \$3-BILLION-PLUS ANNUAL COST OF CRUDE OIL IMPORTS IS BY FAR THE MOST CRITICAL FACTOR IN THE COUNTRY'S BALANCE OF PAYMENTS PROBLEM. FOR 25 YEARS PETROBRAS MAINTAINED A STRONG MONOPOLY POSITION IN PETROLEUM EXPLORATION AND PRODUCTION. LAST OCTOBER, HOWEVER, IN A CONTROVERSIAL DECISION FOLLOWING NEARLY A YEAR OF INTENSE PUBLIC DEBATE, PRESIDENT GEISEL ANNOUNCED THAT PETROBRAS WOULD NEGOTIATE SERVICE CONTRACTS WITH FOREIGN OIL COMPANIES FOR EXPLORATION IN CERTAIN SPECIFIC AREAS, WITH THE FINANCIAL RISKS TO BE BORNE BY THE FOREIGN COMPANIES. THUS FAR, 10 BLOCKS HAVE BEEN DEFINED, NINE OF WHICH ARE LOCATED OFF-SHORE ON THE CONTINENTAL SHELF, WHERE THE CHANCES FOR LARGE STRIKES ARE PROBABLY THE BEST. EARLIER THIS MONTH PETROBRAS PREQUALIFIED 40 COMPANIES, HALF OF WHICH ARE FROM THE US. NEGOTIATIONS TO SELECT THE FINAL GROUP WILL TAKE AT LEAST FOUR OR FIVE MORE MONTHS. FIELD WORK

BY THE COMPANIES SELECTED IS NOT LIKELY TO BEGIN BEFORE THE
END OF THIS YEAR.

10. OIL SHALE: BRAZIL'S RESERVES OF OIL SHALE ARE SECOND ONLY
TO THE U.S. UNTIL A FEW WEEKS AGO, PETROBRAS WAS THOUGHT TO
BE READY TO LAUNCH ITS FIRST INDUSTRIAL-SCALE PROJECT, WHICH
WAS TO COME ON STREAM BY 1981 WITH 50,000 BPD OF SHALE OIL.
THE COMPANY ALREADY OPERATES A 1,000-BPD SEMI-INDUSTRIAL PLANT
USING A BRAZILIAN-DEVELOPED RETORTING PROCESS. LAST OCTOBER
PRESIDENT GEISEL ANNOUNCED THAT A FULL INDUSTRIAL PLANT WOULD
BE BUILT, BUT MINISTER UEKI RECENTLY PUBLICLY EXPRESSED DOUBTS
ABOUT THE COST-BENEFITS OF THE \$1.3-BILLION PROJECT.

11. STEAM COAL: BRAZIL ALSO HAS EXTENSIVE DEPOSITS OF NON-
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METALLURGICAL COAL WHICH ARE BEING EVALUATED FOR INCREASED
THERMALELECTRIC USE AND FOR COAL GASIFICATION APPLICATIONS.

12. URANIUM/THORIUM: LIKE PETROLEUM, URANIUM IS A POLITICALLY
SENSITIVE MINERALS SUBJECT, ESPECIALLY SINCE THE SIGNING OF
THE AGREEMENT WITH WEST GERMANY. THE DOMESTIC AND FOREIGN PRESS
HAVE CARRIED GROSSLY EXAGGERATED ESTIMATES OF THE COUNTRY'S
URANIUM RESOURCES (ONE BRITISH JOURNAL DECLARED THAT BRAZIL
HAS HALF THE WORLD'S RESERVES). IN POINT OF FACT, TOTAL RESERVES
ARE OFFICIALLY ESTIMATED AT 12,000 TONS OF YELLOWCAKE (U3O8);
FOR DOMESTIC NUCLEAR ENERGY PROGRAMS, THE GOB PROJECTS ITS U3O8
REQUIREMENTS UNTIL THE YEAR 2000 AT 90,000 TONS. BRAZIL'S
URANIUM POTENTIAL, OF COURSE, MAY BE MUCH GREATER THAN ITS
CURRENTLY KNOWN LEVEL OF RESERVES INDICATES AND, WITHIN THE
FRAMEWORK OF THE GOB-FRG AGREEMENT, JOINT VENTURE EXPLORATION
COMPANIES HAVE BEEN ESTABLISHED. ACCORDING TO THE AGREEMENT,
HOWEVER, IF NEW RESERVES ARE FOUND, GERMANY WILL NOT RECEIVE A
PORTION OF THE PRODUCTION UNTIL BRAZIL BECOMES SELF-SUFFICIENT,
WHICH MAY BE A LONG WAY OFF. ALTHOUGH ITS URANIUM FUTURE REMAINS
UNCERTAIN, BRAZIL IS KNOWN TO HAVE SOME OF THE WORLD'S LARGEST
THORIUM RESOURCES.

13. EMBASSY BRASILIA CONCURS THIS MESSAGE.
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